

**GOVERNMENT OF THE DISTRICT OF COLUMBIA
OFFICE OF THE INSPECTOR GENERAL**

**AUDIT OF THE
OFFICE OF CABLE TELEVISION
AND TELECOMMUNICATIONS**



**CHARLES C. MADDOX, ESQ.
INTERIM INSPECTOR GENERAL**

OIG-14-99CT

APRIL 14, 1999

GOVERNMENT OF THE DISTRICT OF COLUMBIA



OFFICE OF THE INSPECTOR GENERAL

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MEMORANDUM

TO: Stacy K. Richardson
Interim Executive Director
Office of Cable Television and Telecommunications

FROM: Charles C. Maddox, Esq.
Interim Inspector General

DATE: April 14, 1999

SUBJECT: Audit of the Office of Cable Television and Telecommunications
(OIG-14-99CT-9915)

Attached is the final report summarizing the results of our audit of the Office of Cable Television and Telecommunications (OCTT).

It must be emphasized that this is an audit report only. The Investigative Unit of the Inspector General's office is investigating other aspects of OCTT's operations, and a separate report will be issued from that Unit when the investigation has been completed.

Our audit determined that the internal controls applicable to OCTT operations were not adequate to prevent or detect material errors or irregularities. In fact, most noted deficiencies were caused by material internal control weaknesses. As a result, the integrity, effectiveness, and efficiency of OCTT operations were impaired. Deficiencies were disclosed in the areas of personnel management, procurement and contract administration, financial management, and control of assets. Accordingly, this report contains recommendations that, collectively, represent actions considered necessary to correct the noted deficiencies.

OCTT's response to our draft report is included as Appendix B. We find that the response and the proposed corrective actions are acceptable.

We appreciate the cooperation and courtesies extended to our staff by OCTT personnel during the audit. If you have any further questions, please feel free to call me at the above number or John N. Balakos, Assistant Inspector General for Audits, at 727-9749.

Attachment

cc: Earl C. Cabbell
Interim Chief Financial Officer

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EXECUTIVE DIGEST

OVERVIEW

This report summarizes the Office of the Inspector General's (OIG) audit to evaluate the efficiency and effectiveness of the Office of Cable Television and Telecommunications (OCTT) operations. The mission of OCTT is to protect, promote and advocate the public interest in cable telecommunications in the District of Columbia (District). The mission includes the oversight and coordination of programming for the municipal channels, and coordination of the Interagency Task Force on Telecommunications.

The OIG initiated this audit as a result of complaints alleging improprieties relative to contracting actions at OCTT and a possible relationship with the Legacy Tribute honoring the former Mayor. It must be emphasized that this is an audit report only. The Investigative Unit of the Inspector General's office is investigating other aspects of OCTT's operations, and a separate report will be issued from that Unit when the investigation has been completed.

CONCLUSIONS

We determined that the internal controls applicable to OCTT operations were not adequate to prevent or detect material errors or irregularities. In fact, most noted deficiencies were caused by material internal control weaknesses. As a result, the integrity, effectiveness, and efficiency of OCTT operations were impaired. Deficiencies were noted in the areas of personnel management, procurement and contract administration, financial management, and control of assets. For example, contractual services and materials may have been misappropriated or used for other than their intended purpose. Accordingly, corrective measures are warranted in several areas to improve the operations at OCTT and to ensure that prescribed regulations, policies, procedures and standards are being followed.

PERSPECTIVE

OCTT is an organization with a complement of 8 full-time employees and as of September 30, 1998, retained approximately 39 contractors for television production. For FY 1998, OCTT was budgeted at \$2.47 million and for FY 1999, at \$ 2.80 million. OCTT achieves its mission by monitoring compliance of the District's franchised private cable provider with the terms and conditions of the cable franchise agreement as well as applicable federal and local laws. Gross revenues earned by the cable television provider have averaged over \$45 million a year. OCTT also directly programs City Cable

Channels 13 and 16 and provides cable casting services to District agencies, such as the D.C. Lottery Board.

The current problems existing at OCTT are symptomatic of an organization that has had difficulties dating back several years, including conflicts relative to the use of the municipal channels. These past conditions, including a 1995 reduction in force of about 22 employees, coupled with a high turnover rate in key positions, lack of organizational infrastructure and an increasing demand for public programming, added to the recent internal control breakdowns in OCTT operations.

While our report is problem oriented, it is necessary to keep the findings and recommendations in context. OCTT provides a valuable and desired service to the public. We noted during our audit a sincere dedication of most of the women and men of OCTT in performing their duties. The employees expressed genuine concerns about their jobs, their image, and OCTT's image. Lastly, there is a commitment by current OCTT management to take the necessary actions to improve operations.

CORRECTIVE ACTIONS

We directed 15 recommendations to the Executive Director of OCTT that, collectively, represent actions considered necessary to correct the deficiencies described above. The recommendations, in part, centered on:

- developing internal operating procedures governing procurement, contract administration, and financial activities;
- recovering any inappropriate payments made to contractors;
- implementing safeguards over fixed assets;
- bringing OCTT into compliance with District procurement regulations;
- providing training for employees on standards of conduct and procurement and financial functions; and
- making a determination on whether OCTT should operate on an enterprise fund basis.

On April 12, 1999, OCTT provided a formal response to the recommendations in our draft report. In general, management concurred with the report, and provided a listing of actions taken or planned to address each recommendation. The complete response is included as Appendix B.

INTRODUCTION

BACKGROUND

During the month of November 1998, OCTT terminated the services of 12 Production Unit contractors due to budgetary issues. Several of these contractors criticized OCTT's rationale for canceling their respective contracts. These contractors also complained of other operational issues at OCTT related to the Legacy Tribute held on October 22, 1998, honoring the former Mayor. Because of the seriousness of these complaints, the OIG initiated an audit of OCTT operations.

In a letter to the Chief Financial Officer (CFO) dated November 24, 1998, the former Mayor requested that an audit be performed of the Executive Offices of the Mayor and the Office of the City Administrator. In correspondence to the Deputy CFO, the Chairperson for the Committee on Government Operations for the District, also expressed concerns relative to the operations of OCTT.

To minimize duplication of effort by the various working groups, the OIG coordinated its work with that being performed by the CFO's Internal Control Unit.

OBJECTIVES

The audit objectives were to determine whether OCTT: (1) procured, managed and used resources effectively and efficiently; (2) complied with requirements of applicable laws, regulations, procedures, and policies; and (3) had internal controls in place to prevent or detect material errors and irregularities.

SCOPE AND METHODOLOGY

Our audit objectives were applied to the areas of personnel management, procurement and contract administration, financial management, and fixed assets. To accomplish the objectives, we reviewed pertinent documents and applicable laws, directives, and regulations. Interviews were conducted with key individuals from OCTT, the Office of the CFO, the Office of Contracting and Procurement, and the Office of Personnel. We also interviewed or obtained written statements from current and past employees, vendors, and contractors.

We selected and examined transactions primarily occurring during the period October 1, 1997, through November 30, 1998. Specific emphasis was placed on events occurring during the months of September, October, and November 1998. This was the time period preceding, during, and succeeding the Legacy Tribute held on October 22,

1998, honoring the former Mayor. Our fieldwork was started in December 1998 and completed in January 1999.

All samples and tests were limited to the transactions deemed necessary to evaluate OCTT operations. This audit did not evaluate the adequacy of OCTT's monitoring the compliance of the District's franchised private cable provider with the terms and conditions of the cable franchise agreement. A private Certified Public Accounting firm was retained by OCTT to conduct a compliance review of franchise fee payments for the year ended December 31, 1996. A draft report was issued in November 1998.

Our audit was conducted in accordance with generally accepted government auditing standards.

RESULTS OF AUDIT

FINDING 1: MANAGEMENT AND WORK ENVIRONMENT

SYNOPSIS Management authority not commensurate with responsibility, a lack of or inattention to management information, an inadequate organizational infrastructure, and inconsistent management practices contributed to a work environment that did not promote integrity or inspire trust. As a result, any internal controls that may have been in place were degraded, causing the effectiveness and efficiency of OCTT operations to become impaired.

AUDIT RESULTS The following subsections provide details of our audit concerning the management and work environment at OCTT.

Management Authority. During the course of our audit, we were provided examples indicating that the OCTT Executive Director's authority was not commensurate with the Executive Director's responsibility. This condition may have been caused due to conflicts between the Executive Director and the Executive Director's superior regarding management of OCTT operations. As a result, the Executive Director of OCTT believed that her ability to lead the agency was restricted. Examples include:

- Execution of purchase orders by a superior in the chain of command without the knowledge or approval of the Executive Director.
- Subordinates entering into contractual obligations without the proper authority or the Executive Director's knowledge.
- Circumvention of the management chain of command above and below the Executive Director relative to decision making concerning OCTT operations.
- Efforts to increase salaries of and pay bonuses to OCTT employees without the approval of the Executive Director.
- Interference with day-to-day management of the agency, e.g., restricting the Executive Director's ability to attend or hold meetings and hold people accountable.

Management Information. Inattention to or a lack of management information which should have provided early warning signals of potential problem areas was not expeditiously acted on. For example, the existing contracting method employed by OCTT for its Production Unit contractors, which is in violation of District regulations, dates back to at least October 1997 and possible as far back as 1995. The Executive

Director expressed concerns with the overall contracting issues relative to the hiring and use of these contractors in March 1998 and eventually through correspondence requested assistance. A plan of action was developed in December 1998, but it is uncertain when the plan will be implemented. Management attention could have been focused at an early stage on resolving this problem before it became more serious.

Organizational Infrastructure. A high turnover rate in key OCTT positions such as the administrative position that handles finances and procurements (4 during the last year) and insufficient internal guidance have hindered the basic framework for conducting business at OCTT. Our review also disclosed that personnel were unfamiliar with governing directives, and either circumvented or disregarded governing directives such as the employee standards of conduct and District procurement regulations.

Management Practices. During the course of our audit, it became apparent that management practices relative to the treatment of employees and contractors were inconsistent or questionable. OCTT employees and contractors provided testimonial and documentary evidence of intimidation, preferential treatment, misconduct, and other types of irregularities. For example, we received information that individuals were instructed to sign the names of other personnel relative to contracting actions and payment of invoices.

We also found indications of preferential treatment in hiring practices and the treatment of OCTT contractors. For example, information was provided that television production unit contractors were hired without previous television experience and paid the same or higher rates than more qualified individuals. Additionally, we received information that potential contractors performed work at OCTT, without pay, prior to being officially hired.

FINDING 2: STANDARDS OF CONDUCT REQUIREMENTS

SYNOPSIS OCTT had not effectively implemented standards of conduct requirements provided by District personnel regulations. OCTT personnel who should have submitted or been required to submit confidential Statements of Employment and Financial Interest had not filed the statements. An incumbent's failure to comply with the standards of conduct could result in an apparent or actual conflict of interest. This condition existed because of insufficient management attention and the absence of a designated Ethics Counselor.

AUDIT RESULTS Our review disclosed that OCTT did not assign responsibility for centrally managing the standards of conduct program. Additionally, OCTT did not establish policy or procedures for determining personnel disqualification regarding OCTT business operations.

The District of Columbia Personnel Manual (DPM) sets forth the required standards of ethical conduct governing District employees. Specifically, DPM, Section 1813, provides that no employee of the District government shall engage in outside employment or private business activity or have any direct or indirect financial interest that conflicts or would appear to conflict with the fair, impartial, and objective performance of officially assigned duties and responsibilities. Further, each agency head shall identify employees performing policy-making, contracting, or purchasing functions, or functions in which meaningful decisions are made in respect to private organizations. These employees shall submit annual and supplementary statements of employment and financial interests, as required.

DPM, Section 1811, requires the head of each agency of the District Government to appoint or designate an employee to serve as the agency Ethics Counselor. Responsibilities of the agency Ethics Counselor include advising agency employees with respect to their obligations relative to the standards of conduct and advising the agency head with regard to the designation of agency employees required to file statements of financial interest.

FINDING 3: CONTRACT AWARD AND ADMINISTRATION PROCEDURES

SYNOPSIS Contract award and administration actions taken by OCTT were not in compliance with District regulations. As a result, we estimate that over \$728,000 in funds will have been expended using improper contracting methods. Further, the existing contracting methods used by OCTT have resulted in an employer-employee relationship between the District and certain contractors, and services and materials valued at approximately \$9,886 may have been misappropriated or used for other than their intended purpose. Factors contributing to this condition were (1) unfamiliarity with governing procurement regulations, (2) circumvention of or intentional disregard for policies and procedures by some OCTT employees, (3) insufficient internal operating guidance (4), and OCTT's desire to improve its programming for the District's municipal channels.

AUDIT RESULTS OCTT in an effort to provide higher quality produced programming on City Channels 13 and 16 entered into contractual agreements for television production services. The contractual agreements and implementation of the agreements resulted in numerous violations of the District of Columbia Municipal Regulations (DCMR) Title 27 governing contracts and procurements and District regulations governing employee standards of conduct. We found deficiencies in the following areas:

Using Small Purchase Methods. OCTT exceeded its small purchase authority of \$25,000 in the execution of contracts for television production. As a result, for FY 1998 and FY 1999 OCTT will have contracted with about 50 different individuals and expended over \$728,000 in violation of procurement procedures. OCTT knew or should have known when the procurement requirement was initially identified that its small purchase limitation would be exceeded. Notwithstanding the violation of exceeding its procurement authority, OCTT in carrying out its contracting arrangements with individual contractors also did not comply with the implementing requirements of small purchase procedures. For example: (1) not soliciting competitive bids, (2) failing to justify use of the sole source procurement method, and (3) individual contractors receiving aggregate payments exceeding \$25,000.

Contracting for Services. OCTT contractual arrangements with various individuals to perform production unit work resulted in an employer-employee relationship between the District and the contractors. For example, OCTT personnel supervised the contractors with respect to the day-to-day operations, set methods of accomplishment for contractual services, and established tours of duty for the contractors.

Contracting Authority. An OCTT employee made commitments but lacked actual authority to enter into potential binding agreements on behalf of the District. Further, OCTT contractors placed orders on behalf of OCTT and services were received in direct violation of DCMR, Title 27. For example:

- An OCTT employee without proper authority entered into contractual agreements with at least four individuals to provide services between the dates of August 30, 1998, and October 22, 1998, specifically for the Legacy Tribute honoring the former Mayor, a private venture. OCTT's responsibility was to cover such an event, not to enter into contractual agreements in support of the event.
- We found several instances where contractor personnel ordered rental equipment or merchandise outside the scope of their responsibility. Merchandise ordered and subsequently paid for ranged from television production lighting equipment to table linens and chairs. An OCTT employee authorized payments for the merchandise.

DPM, Section 1800, provides that no employee of the District government shall engage in outside employment or private business activity or have any direct or indirect financial interest that conflicts or would appear to conflict with fair, impartial, and objective performance of officially assigned duties and responsibilities. DCMR, Title 27, provides that the District shall not be responsible for any cost incurred by a contractor for any additional work or other actions by a contractor outside the scope of the written contract and written contract modifications signed by the contracting officer.

Monitoring Contractual Performance. Management controls at OCTT over the completion and approval of contractor invoices were inadequate. As a result, there was no assurance that funds paid to contractors were always in compliance with contract terms to the benefit of OCTT. For example:

- We identified that OCTT inappropriately authorized payments totaling, at a minimum, \$9,886 for materials and to contractors for work performed relative to the Legacy Tribute for the former Mayor. However, we were unable to identify specifically the total amounts that may have been paid contractors in support of the Legacy Tribute due to the lack of documentation, as well as poor internal controls in the areas of timekeeping and records management. Moreover, contractors stated in interviews that they were instructed to destroy original invoices which they completed for submittal to a private company that was to pay these contractors for work performed on the Legacy Tribute and substitute invoices charging their time to OCTT.
- Contractors did not always complete invoice time sheets to include information such as assignment, contract rate, or date and time worked. As a result, OCTT was not able to separate or account for valid OCTT work from work that was or may have been performed in support of a private function. For example, our review disclosed that for the period October 1 to October 23, 1998, Production Unit contractors were collectively paid over \$72,000. However, we question this cost because we were unable to determine the propriety of funds expended. Interviews with contractor personnel disclosed

that they worked on the Legacy Tribute, held on October 22, 1998, primarily during OCTT business hours.

- OCTT management authorized payments to three contractors totaling \$4,581.50 for work reported on separate time sheets for the same period. All of these contractors had contracts providing that they were to be paid a set dollar rate per day for services rendered. We found that contractors were paid their established daily rates and, in addition, paid a separate rate for hours charged for lottery work during the same time periods. There was no documentation to support or explain the additional payments made to these contractors for the work during the same time periods.

In an attempt to help resolve some of the contracting problems at OCTT, representatives from the Offices of the Chief Financial Officer, Contracts and Procurement, and Personnel agreed to a corrective action plan. This plan, dated December 17, 1998, included an extension of the current contracting arrangement at OCTT to allow for appropriate contracting actions to take place, and an increase in the permanent staff assigned to OCTT.

FINDING 4: FINANCIAL MANAGEMENT

SYNOPSIS Controls over financial management activities at OCTT do not ensure reliability of financial records or propriety of transactions. OCTT and its financial support office did not always: (1) deposit negotiable instruments timely; (2) establish financial obligating documents appropriately; (3) pay invoices timely; (4) record financial transactions correctly; or (5) maintain financial/vendor files adequately. These conditions existed because of insufficient internal operating procedures, a high turnover in administrative personnel, and insufficient attention to applying sound financial accounting techniques. As a result, OCTT lost potential interest on revenues, distorted financial reports, ran the risk of exceeding its budget authority, and may lose the services of local vendors.

AUDIT RESULTS The following subsections provide details:

Controlling Negotiable Instruments. During our review of controls over negotiable instruments, we found that franchise fee payments received by OCTT totaling \$2,097,646 took an average of 22 days to be deposited. Some of the delay was attributable to OCTT's financial support office. As a result, the District lost an estimated \$5,143 in interest revenues. Additionally, we noted that policies and procedures were not established to record properly and account for receipts. For example, personnel at OCTT and its financial support office do not perform reconciliations of monies received at OCTT and subsequently deposited by its financial support office. Regular reconciliations would help ensure that funds are properly recorded and would also identify any significant time lapses of deposits.

Establishing Financial Obligations. OCTT did not comply with District financial accounting regulations by not verifying the existence of funds and by not establishing a related obligating document prior to contracting, placing orders and receiving services. Our analysis of payments made during September through November 1998 identified 97 payments totaling \$114,639 that were made without the required obligating document pre-established in the accounting system. OCTT personnel stated that they were unable to establish required obligating documents, i.e., purchase orders, because controls were not in place at OCTT to require the centralization of financial activities.

Resource Management Guidance No. 96-01 provides, in part, that agencies may not enter into obligations without making the appropriate due diligence checks to assure fund availability to support the obligation. Further, agencies must record all obligations in the financial management system within 72 hours of committing the obligation. Controllers who are not responsible for entering vouchers should still monitor the process in their agency and report any problems to the agency head and to the CFO. Agencies should plan quarterly closeouts to assure that all obligations have been recorded.

Resource Management Guidance No. 96-02 requires that all expenditures shall first be obligated in the District's financial management system before being vouchered and paid.

In an effort to correct this problem, the Executive Director issued a memorandum dated October 13, 1998, to the Director of News/Programming and the Administrative Assistant requiring them to "... (1) determine whether a purchase order exists to cover the requested expense prior to incurring the expense; and (2) to check vouchers against the available balance on outstanding purchase orders prior to the submission of vouchers for payment." This memorandum also specified procedures governing the process to be followed for the procurement of goods and services.

Paying Vendor Invoices. Vendor invoices received by OCTT were not processed timely for subsequent payment. Personnel from OCTT's financial support office stated that they did not receive the invoices timely from OCTT in order to process them for payment in accordance with District regulations. However, we could not determine with certainty whether the delay occurred at OCTT or OCTT's financial support office. We identified 21 invoices totaling approximately \$24,795 paid more than 60 days late. Seventeen of these invoices were paid more than 100 days late. Untimely payment to vendors jeopardizes the District's credibility, and impairs OCTT's ability to operate.

For example, one vendor ceased all services to OCTT due to delinquent payments. This particular vendor was critical to the operations of OCTT in that the vendor provided technical repair to television production equipment. OCTT personnel also informed us that another vendor who sells office supplies refused to continue doing business with OCTT due to delinquent payment. As a result, OCTT had to locate another vendor to obtain needed supplies to carry out daily functions of the office.

Financial Management and Control Order No. 96-04 sets forth that the time required from receiving an invoice for payment to document acceptance in the District's financial management system is a maximum of seven working days. Additionally, each agency shall require that invoices are processed consistent with the time lines established for various commodities in the "District of Columbia Quick Payment Act of 1984." The Order also provides that agency directors are to receive a monthly report on the status of invoices received and processed. The report should highlight turnaround times by organizational units and those areas requiring improvement and the actions being taken to remedy the deficiencies.

Recording Financial Transactions. During our review of financial transactions at OCTT, we noted that expenditures for equipment or services were not always recorded to the proper accounting codes. For example, \$24,000 in expenditures for computer equipment and television production equipment maintenance was incorrectly recorded to contractual services and office support. Financial transactions must be properly recorded if pertinent information is to maintain its relevance and value to management in controlling operations and making decisions, such as those concerning the cost of operations.

Maintaining Financial/Vendor Files. The financial/vendor files at OCTT did not contain invoices to support purchases or copies of related purchase orders. It was also noted that invoices on hand did not denote when or whether the invoice had been authorized for payment, accepted into the financial management system, or paid.

During our review of inventory and fixed assets, we identified 29 invoices totaling \$97,995 charged to equipment for OCTT for FY 98. Invoices for 10 of these 29 items were not able to be located at OCTT or at the financial support office where the bills are paid. Without the invoices, we could not determine what was purchased, and whether it was a proper or authorized purchase. These 10 invoices totaled \$16,305. Maintenance of procurement files is essential not only as an audit trail to verify the legitimacy of expenditures, but also as a record of the purchase, acknowledgement of receipt, and identification of item.

Financial Management and Control Order No. 96-04 provides, in part, that each agency shall establish and maintain a log to track and record invoices received. The log should provide at a minimum:

1. Vendor name;
2. Date invoice received;
3. Amount of invoice;
4. Description of goods or services provided;
5. Contract or purchase order reference number;
6. Date of contract or purchase order; and
7. Date of goods and services received per invoice.

We were informed that the files were incomplete because prior to the centralization of the procurement and finance function, OCTT production personnel and various contractors were ordering supplies and services and remitting the invoices directly to the financial support office for payment. Therefore, a copy would not be on file at OCTT, and a related purchase order would not have been established prior to the contractual commitment. Furthermore, the financial support office does not provide any data on invoices paid or other supporting documentation of transactions processed on a regular basis to OCTT.

OCTT verifies the status of invoices received by telephoning the manager of its financial support office. OCTT then confirms whether the invoice in question has already been paid and whether a purchase order has already been established. OCTT only receives a verbal confirmation as to these two facts. We believe that better communication is necessary, in the form of hard copy documentation, between OCTT and its financial support office so that expenditures can be adequately monitored and processed in accordance with governing regulations.

FINDING 5: ENTERPRISE FUND

SYNOPSIS The OCTT is not operating on an enterprise fund basis as set forth by the District of Columbia (D.C.) Code. The intent of an enterprise fund financial structure is to recover, in whole or in part, the costs incurred by the government in providing goods or services to the public. In essence, OCTT by law was envisioned to be a self-sufficient activity without an added cost to the taxpayer or annually appropriated funds to finance its operation. Reasons provided to us as to why OCTT was not operating as an enterprise fund were (1) franchise fee payments received by OCTT do not necessarily constitute user fees, and (2) a conflict may exist if a regulatory function is operated to make a profit.

AUDIT RESULTS D.C. Code, Section 47-373, establishes an organization of fund structure for purposes of accounting and financial reporting in the District of Columbia. One fund type under the structure is an Enterprise Fund that is financed and operated in a manner similar to private business enterprises. Enterprise Funds are to be separately accounted for and are to be maintained separately from the General Fund of the District. D.C. Code, Section 43-1807.1, establishes a Cable Television Fund into which shall be deposited all revenue owed and accruing to the District from the establishment, regulation, and operation of a cable television system within the District of Columbia. The Cable Television Fund shall be an Enterprise Fund.

OCTT was established in the early 1980s as the administrative agency within the District responsible for protecting and promoting the public interest in cable television. The office also produces programming for the municipal channels. In carrying out its mission, OCTT was designated to operate on an Enterprise Fund basis; however, in actuality, OCTT is appropriated on an annual basis. The revenue received by OCTT from franchise fees and other sources such as program production for lottery draws is deposited to the General Fund. For the last four FYs total revenue received by OCTT has averaged about \$2.8 million (franchise fees-\$2.4, other revenue \$.4). For FY 1998 revenue received by OCTT exceeded \$3.2 million, while FY1998 expenses for operations were \$2.5 million. As a result, OCTT in effect has been a self-sufficient enterprise.

In attempting to address the issue of OCTT operating on an Enterprise Fund basis, we could find no documented rationale permitting OCTT not to operate as an Enterprise Fund. One option discussed with the OIG was to separate the fund structure of OCTT, with the production side operating on an enterprise fund basis and the regulatory side receiving appropriated funds annually.

FINDING 6: FIXED ASSETS

SYNOPSIS The OCTT had not implemented minimum safeguards over fixed assets. Review showed that equipment was not sufficiently secured, access was not restricted, and inventory records were not adequately maintained. Without controls in place to ensure the proper safeguarding of assets, items can easily be stolen or used for unauthorized purposes.

AUDIT RESULTS Financial Management and Control Order No.97-33 requires that fixed assets with a unit cost of less than \$5,000 should be identified and properly classified as non-capital controllable equipment of the agency. The minimum unit cost level required to be identified as equipment of the agency is \$1,000, except certain items. Agencies should set minimum thresholds for the inventory of fixed assets in the agency. All items at risk to theft and misappropriation should be controlled and accounted for, such as weapons, telephone equipment, and portable electronic equipment.

Our review disclosed that improvements could be made over the inventory of fixed assets for office equipment and furniture at OCTT. The latest inventory taken (date uncertain) identified items purchased during FY's 1985 – 1987. This schedule had an asset value of approximately \$373,895. Responsible personnel could not estimate the value of OCTT assets. Further office furniture and equipment items were not tagged or otherwise marked as property of the District Government for identification and control purposes.

We also noted that OCTT has mobile transmitting and receiving equipment used at remote taping sites. The staff, as well as contractors employed at OCTT, uses this equipment. There were no established procedures for recording the use of this equipment by individuals. Also, there were no policies requiring persons to “log out” items removed from the OCTT offices. Additionally, we have obtained statements from contractors that persons were taking equipment home. OCTT's television production equipment estimated value exceeds one million dollars.

CONSOLIDATED LIST OF RECOMMENDATIONS

We recommend that the Executive Director of OCTT:

1. Develop, as needed, internal policies and procedures for conducting the day-to-day business operations of OCTT, especially in the areas of procurement, contract administration, and financial management. These procedures, at a minimum, should:
 - a. Ensure that good communication exists between OCTT and its financial support office,
 - b. Designate persons authorized to place orders for goods and services,
 - c. Require reports to be prepared and reviewed to ensure proper establishment of obligating documents and prompt payment of vendor invoices,
 - d. Establish controls to ensure that funds are spent for authorized purposes only and proper accounting codes are used to record expenditures, and
 - e. Maintain vendor files in accordance with regulations.
2. Establish individual employee performance standards to include sufficient emphasis on chain-of-command reporting requirements, supervisory skills, and integrity awareness. Include internal control objectives in the performance standards for personnel with significant management and supervisory responsibilities.
3. Appoint or designate an OCTT employee to serve as the agency Ethics Counselor.
4. Provide training to all employees on the Standards of Conduct and procurement and financial training to personnel responsible for those activities.
5. Make employees aware of avenues available to report instances of misconduct or wrongdoing among District employees.
6. Determine the personnel who should be required to submit confidential Statements of Employment and Financial Interest.
7. Implement controls to ensure that all monies are timely deposited so that the District obtains full advantage of any potential for interest income.

8. Conduct a complete physical inventory of fixed assets and make any necessary corrections to existing inventory listings.
9. Establish procedures to address the safeguarding and control of assets. At a minimum, these controls should require a sign-out and sign-in mechanism to monitor the use of equipment outside of OCTT offices.
10. Review purchases made by contractor personnel and determine if costs should be recovered.
11. Recover, as appropriate, any duplicate payments made to contractors paid for different work during the same time periods.
12. Recover, as appropriate, funds paid inappropriately to contractors for work performed on the Legacy Tribute.
13. Implement procedures properly to account for the time and subsequent payment of funds to Production Unit contractors.
14. Finalize action in conjunction with supporting offices to bring OCTT into compliance with DCMR Title 27, relative to the use of its Production Unit contractors.
15. Comply with the District requirements that establish OCTT as an Enterprise Fund or initiate action to change OCTT's fund structure.

GOVERNMENT OF THE DISTRICT OF COLUMBIA
EXECUTIVE OFFICE OF THE MAYOR



Office of Cable Television & Telecommunications
2217 14th Street, N.W.
Washington, D.C. 20009

April 12, 1999

Charles Maddox
Interim Inspector General
Office of the Inspector General
717 14th St., N.W., 5th Floor
Washington, D.C. 20005

Subject: Response to OIG's Audit of the Office of Cable Television and
Telecommunications (OIG-14-99CT)

Dear Mr. Maddox:

Thank you for conducting the audit of the Office of Cable Television and
Telecommunications (OCTT) and for the opportunity to respond to the draft report.
Attached is the OCTT's response to the OIG's consolidated list of recommendations.

Should you have any questions or need further information, I can be reached at (202)
671-0067.

Sincerely,

A handwritten signature in cursive script that reads "Stacy K. Richardson".

Stacy K. Richardson
Interim Executive Director

Attachment

Cc: Earl Cabbell
Interim Chief Financial Officer

Peggy Armstrong
Director of Communications
Office of the Mayor

RESPONSE TO CONSOLIDATED LIST OF RECOMMENDATIONS (OIG-14-99CT)

Recommendation 1: Develop, as needed, internal policies and procedures for conducting day-to-day business operations of OCTT, especially in the areas of procurement, contract administration and financial management. These procedures, at a minimum, should:

- a. Ensure that good communication exists between OCTT and its financial support office,
- b. Designate persons authorized to place orders for goods and services,
- c. Require reports to be prepared and reviewed to ensure proper establishment of obligating documents and prompt payment of vendor invoices,
- d. Establish controls to ensure that funds are spent for authorized purposes only and proper accounting codes are used to record expenditures, and
- e. Maintain vendor files in accordance with regulations.

Action Planned: The Office of Cable Television and Telecommunications (OCTT) concurs with the above recommendation. Prior to the Office of the Inspector General (OIG) investigation, OCTT had began preparing a policy and procedure manual intended to serve as a guide for day-to-day operations at OCTT. Although progress was slow due to increased regulatory demands on the office, OCTT is proceeding with deliberate speed to complete the policy and procedure manual. The Office manual will include, but will not be limited to, office policy regarding:

- Financial Control Methods
 - Designation of Authorized Personnel to prepare and receive financial documents
 - Maintenance of Financial and Other Records and Reports
 - Procurement Controls
 - Recommended Communications methods between FTS and OCTT

Recommendation 2: Establish individual employee performance standards to include sufficient emphasis on chain-of-command reporting requirements, supervisory skills, and integrity awareness. Include internal control objectives in the performance standards for personnel with significant management and supervisory responsibilities.

Action Taken: OCTT concurs with this recommendation in principle. However, it is the position of OCTT that sufficient performance measures and standards are currently in place. In the past, chain of command reporting requirements were not adhered to and integrity awareness may not have been emphasized. However, these fundamental performance standards are currently part of OCTT's performance evaluation process. *All* supervisory personnel within the agency will be evaluated by the Executive Director.

OCTT fully understands the concerns of the OIG. Nevertheless, OCTT has adequate performance measures and these measures will be used as part of the evaluation process.

Recommendation 3: Appointment or designate an OCTT employee to serve as the agency Ethics Counselor.

Action Taken: OCTT concurs with this recommendation. Pursuant to Section 1803(a) of the District of Columbia Government Comprehensive Merit Personnel Act, D.C. Code Section 1-619.3(a), OCTT has appointed Attorney Advisor, Walter Adams as the agency's Ethics Counselor. Mr. Adams will be responsible for advising employees regarding their obligations in meeting the ethical standards of conduct under the Merit Personnel Act and its implementing regulations in Chapter 18 of the D.C. Personnel Regulations. Mr. Adams, with the assistance of the Office of the Corporation Counsel, will be responsible for drafting necessary advisory opinions in response to employee inquiries.

Recommendation 4: Provide training to all employees on the Standards of Conduct and procurement and financial training to personnel responsibilities for those activities.

Action Taken: OCTT is in agreement with the OIG's recommendation regarding training for all employees on the Standards of Conduct and training for employees entrusted with procurement and financial responsibilities.

Recently OCTT hired twelve new full time term employees in the programming unit. These twelve new employees will be attending a training seminar sponsored by the District of Columbia Office of Personnel. The Office of Personnel has advised OCTT that one of the components of the training seminar is a discussion regarding Standards of Conduct. The Office of Personnel has further advised OCTT that all new District Government employees will be required to attend the training seminar sponsored by the Office of Personnel. OCTT has inquired with the Office of the Chief Financial Officer about training for OCTT employees responsible for procurement and other financial matters. A designated employee from OCTT will attend any and all future training seminars or workshops for agency employees entrusted with financial responsibilities.

Recommendation 5: Make employees aware of avenues available to report instances of misconduct or wrongdoing among District employees.

Action Taken: OCTT concurs with this recommendation. Accordingly, (*hotline*) notices provided by the Office of the Inspector General have been placed in several conspicuous, highly traveled areas within the agency regarding reporting methods when misconduct or wrongdoing is suspected. Additionally, OCTT employees are encouraged at monthly meetings to speak with their immediate supervisor as well as the Agency Director whenever wrongdoing or misconduct is suspected.

Recommendation 6: Determine the personnel who should be required to submit confidential Statements of Employment and Financial Interest.

Action Taken: OCTT concurs with this recommendation. Pursuant to D.C. Code Section 1-1462(d)(1) and Section 1813.10 of the Personnel Regulations for the District of Columbia, OCTT has determined which employees are required to submit confidential statements of Employment and Financial Interest. These employees have been requested to submit their responses to the appropriate reporting agencies post haste.

Recommendation 7: Implement controls to ensure that all monies are timely deposited so that the District obtains full advantage of any potential for interest income.

Action Taken: OCTT agrees with this recommendation. Although, OCTT relies on the expertise of its financial managers at the Office of the Chief Financial Officer (CFO) regarding check deposits, payments to vendors, fund management and several other financial responsibilities, officials from the CFO's office have assured OCTT that all deposits will be made in an expeditious manner. OCTT's new policy regarding franchise fee checks received requires the OCTT employee entrusted with financial responsibility to forward all checks received by OCTT to FTS within two business days. Additionally, OCTT will request from FTS quarterly activity reports for all cash transactions processed for OCTT.

Recommendation 8: Conduct a complete physical inventory of fixed assets and make any necessary corrections to existing inventory listings.

Action Taken: OCTT concurs with this recommendation. OCTT is in the process of conducting a complete physical inventory of all fixed assets. The inventory report will be complete by June 1999.

Recommendation 9: Establish procedures to address the safeguarding and control of assets. At a minimum, these controls should require a sign-out and sign-in mechanism to monitor the use of equipment outside the OCTT offices.

Action Planned: OCTT concurs with this recommendation. However, OCTT already utilizes sign in and sign out sheets to monitor the use of certain office and programming equipment. Other internal control procedures are being developed to strictly monitor control of all equipment. Moreover, OCTT is in consultation with Property Management Department so that action can be taken to tag all OCTT property without delay.

Recommendation 10: Review purchases made by contractor personnel and determine if costs should be recovered.

Response: OCTT has concerns regarding this recommendation. While in principle the contracting practices of certain OCTT staff may not have complied with government regulations, services were provided and OCTT is obligated to pay for those services.

Accordingly, OCTT requests that the OIG provide specific transactions that it believes should be investigated and which costs should be recovered. Upon providing those

transactions, OCTT will consult with the Office of the Corporation Counsel to determine how to address issues regarding recovery of costs stemming from purchases made by former OCTT contracting personnel.

Recommendation 11: Recover, as appropriate, any duplicate payments made to contractors paid for different work during same periods.

Response: OCTT has similar concerns regarding this recommendation. While OCTT agrees that contractors should not have been paid twice for *alleged* different work during the same period, OCTT would appreciate the OIG identifying the names and corresponding paperwork which indicates that these contractors were paid twice. Upon receiving these names and the supporting paperwork, OCTT will consult with the Office of the Corporation Counsel to determine how to recover duplicate payments made to contractors.

Recommendation 12: Recover, as appropriate, funds paid inappropriately to contractors for work performed on the Legacy Tribute.

Response: OCTT concurs that contractors should not have been paid from OCTT funds for work associated with the Legacy Tribute that did not benefit OCTT. However, your recommendation is overly broad and vague. As such, please identify specific transactions that OCTT should investigate so that appropriate action can be taken.

Recommendation 13: Implement procedures properly to account for the time and subsequent payment of funds to Production Unit contractors.

Action Taken: OCTT is in general agreement with this recommendation. A time and attendance procedure has been developed to accurately record contractors' time for payment purposes. However, OCTT no longer employs numerous contractors on a regular basis. OCTT does plan to utilize contractors for various short-term projects in the future and the above referenced control systems will be used to record their time and attendance.

Recommendation 14: Finalize action in conjunction with supporting offices to bring OCTT into compliance with DCMR Title 27, relative to the use of its Production Unit contractors.

Action Taken: OCTT concurs with this recommendation. Action was taken on March 31, 1999, to correct this problem. Hence, OCTT is currently in compliance with DCMR Title 27.

On or about March 31, 1999, OCTT hired 12 full time term employees to provide programming and production services. Prior to March 31, 1999, these programming and production services were provided by contractors. These contractors' contracts expired on March 31, 1999 and OCTT did not extend any of their contracts. In the future OCTT will utilize contractors for special projects only.

Recommendation 15: Comply with the District requirements that establish OCTT as an Enterprise Fund or initiate action to change OCTT's fund structure.

Response: OCTT acknowledges this recommendation. However, because this recommendation concerns a policy issue that cannot be determined or implemented by OCTT, this recommendation will be forwarded to the Office of the Mayor as well as the Council of the District of Columbia oversight committee for OCTT. OCTT cannot independently change the fund structure or the fund designation without approval and action by other government entities.